R4105-0932WA

Research Bulletin

U.S. Regional Economies

An Updated View of 1983-1984

The Conference Board

number 154

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THE CONFERENCE BOARD, INC.
845 Third Avenue, New York, N.Y. 10022
THE CONFERENCE BOARD OF CANADA
25 McArthur Road, Ottawa, Ontario, K1L-6R3, Canada
THE CONFERENCE BOARD INC.
Avenue Louise, 207 - Bte 5, B-1050 Brussels, Belgium

The recovery in U.S. economic activity is a year old as 1983 comes to a close. Back in February, when The Conference Board's Regional Economic Forum met to assess 1983-1984 prospects, the evidence of the upturn was still quite tentative. At that meeting, as reported in Research Bulletin 137, the regional experts were confident that 1983 would be a year of economic growth, but their expectations were subdued. Not only did they expect the growth rate in 1983 to be very modest, they also expressed worry about the fragility of financial markets and about the chances of yet another round of inflation.

Late in 1983, the Forum participants updated their assessments. Their reports are presented in this Bulletin. The first year of recovery has been a good deal stronger than expected, and it has certainly touched every part of the country. The sentiments of the Forum are nevertheless not exceptionally buoyant. In part, this is because serious problems persist in agriculture and in export-dependent and import-competitive industries. Also, the recessions of the early 1980's were so deep that even a strong recovery leaves industries and regions well below their peaks. Finally, the Forum participants probably share the widespread sense of nervous uncertainty over whether the U.S. economy has escaped the dreary circle of boom and bust. Be that as it may, the reports here certainly do make more cheerful reading than those of the past several years.

Lora S. Collins
Director-Business Conditions Analysis

New England

Katharine L. Bradbury
Federal Reserve Bank of Boston

NEW ENGLAND

New England's recovery from the 1981-1982 recession has been more gradual than that of the United States in total. Nonagricultural employment in the nation grew 1.9 percent between the recession's trough in November, 1982, and September, 1983, while jobs in New England grew less than half as fast. In manufacturing, the contrast was more stark: New England employment in July, 1983, was 1.1 percent above November, 1982, while national manufacturing employment increased by 3.5 percent.

This flat performance partly reflects a delayed upturn in New England: Manufacturing jobs in the region continued to decline for several months after manufacturing in the nation began to recover. Then, manufacturing in New England grew 2 percent between February and September of 1983. This is not unlike the region's initial recovery from the 1975 recession, when manufacturing jobs declined for four months after the recession's trough. Autos (and related rubber and steel) and residential construction generally lead recoveries, and New England employment is less concentrated in these sectors than that of the average state.

New England's slow recovery also reflects its relatively strong performance during the recession; at the trough, total nonfarm jobs in New England were only 2 percent below the peak, while the national decline was 3 percent. Durable goods manufacturing, in particular, held up better in New England than in the country as a whole during the recession, and even after further losses during the early recovery, durables employment in New England in September, 1983, was 8 percent below the prerecession peak, compared to 9 percent for the nation. (See chart.)

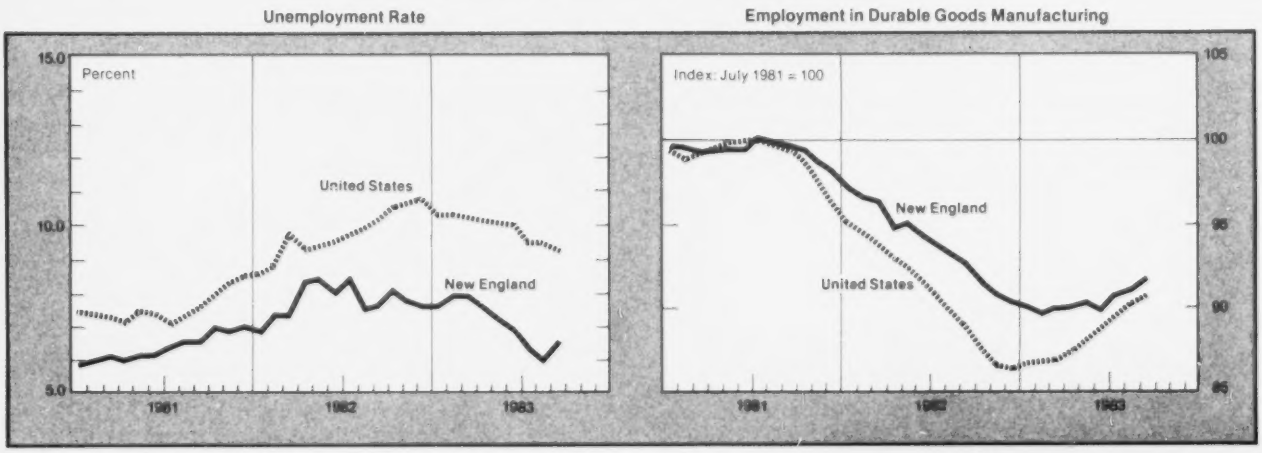
Nonmanufacturing employment has been unsteady in the region, climbing 1.5 percent from August, 1982, to February, 1983 (while national employment slid slightly), then declining while nonmanufacturing jobs elsewhere picked up in the spring quarter. The decline was mostly attributable to government and construction. As of September, 1983, nonmanufacturing employment in the region was 0.8 percent above its level at the prerecession peak, while the rise in national manufacturing growth was almost twice that.

None of the New England states has recovered as strongly as the nation, but New Hampshire was least affected by the recession, and has continued its strong growth trend into the recovery. In contrast, Rhode Island's recession employment losses, unlike those of the other New England states, were greater than the nation's; yet it has recovered in parallel with the region.

The regional picture looks brighter when one compares New England's unemployment *rates* (rather than employment growth) with the nation's. New England's rate declined 1.3 percentage points between November, 1982, and September, 1983, about the same as the national rate of improvement. But the September, 1983, rate was 6.5 percent, only slightly above the low rate New England experienced at the peak before the 1981-1982 recession. The U.S. rate—9.3 percent—was still more than 2 percentage points above its level at the prerecession peak. (See chart.) All six New England states had below-national-average unemployment rates in July.

The near-term outlook for New England is favorable for

New England and the Nation -- The Employment Picture



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the same reasons that a more gradual recovery was expected for the region at the start of 1983. Specifically, New England's production is more concentrated than that of other regions in sectors which were expected to recover with a lag—capital goods and exports.

Business capital spending nationally has picked up sharply in recent months. Most forecasts suggest that steady growth will continue through 1984 and 1985. Activity in investment-related high-technology industries such as computers, communications equipment, and electronic components and instruments, as well as more traditional capital goods industries, is expected to accelerate at this stage in the business cycle. Thus, the orientation of New England manufacturing toward capital goods should pay off in increased orders and shipments now that the first year of the recovery is nearly completed.

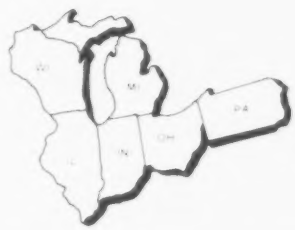
An export recovery began in June after three lean years. Orders have been bolstered by improving conditions in Canada, the United Kingdom, and Japan, although France, Italy and Latin America remain weak. Improved European purchasing power should provide a boost to New England manufacturers. However, the strength of the dollar reduces the probability of a strong export surge, and is responsible for the sharp pickup in imports that has accompanied the recovery.

Three other factors can be expected to affect the pace of New England's recovery—defense spending, construction and government. Government employment declined more in the region than in the country as a whole during the recession and continued to fall off faster than nationally from the trough through the Summer of 1983. Massachusetts accounts for 90 percent of the region's loss of government jobs. It is not likely that New England as a whole will continue to decline faster than average, but government employment is not a strong growth sector anywhere.

Defense spending is expected to continue at a strong, steady pace; this will contribute more to economic growth in New England than in most regions. Construction is less important in New England than in the nation, with the exception of New Hampshire and Vermont. Because population growth in the region is slower than average, construction activity is disproportionately nonresidential, a sector which tends to lag the business cycle.

"The Industrial Heartland"

W.V. Bussman
TRW Inc.



The economic recovery that seems to be sweeping vigorously through the United States economy is being felt in spots in the Industrial Heartland. Industries associated with current production of automobiles have added workers to support higher production levels. Other manufacturing industries, however, have yet to experience much of a recovery.

The Cleveland SMSA presents a microcosm of the Industrial Heartland. From the first quarter of this year to the third quarter, industrial employment in the Cleveland SMSA rose by 15,400, or 1.9 percent. However, most of that increase occurred in nonmanufacturing employment, as shown in the table; manufacturing employment rose by only 1,700 persons, a 0.8 percent rise.

Within manufacturing, total employment in durables industries remained flat, while employment in nondurables industries increased. The only industries within the durables sector to record increases in employment in 1983 were primary metals and transportation equipment, mostly automobiles. Employment by rubber manufacturers also increased, reflecting the higher demand for automobiles countrywide.

The employment patterns shown in the table are fairly typical of the way the Cleveland area follows a national recovery. Gains occur early in automotive-related industries, which tend to recover early in the overall U.S. cycle. Other industries that are more tied to investment spending, such as nonelectrical and electrical machinery as well as primary metals and fabricated metal products, experience their most rapid recoveries in the second year of the national recovery. This pattern was one of the factors that made the last four years so painful for the Industrial Heartland: There was no second year to the 1981 uptick although it is formally recognized as having been a recovery.

If the U.S. economy continues to expand for two more years or so, the Industrial Heartland will benefit. However, the previous peaks of production or employment will most likely not be approached as long as costs of production exceed the production costs in the rest of the nation and overseas by such large margins.

Unfortunately, the outlook for the Industrial Heartland becoming more competitive with the rest of the world is not bright. Labor costs are not the only determinant of

Cleveland SMSA Employment by Industry (In thousands)

	1979	1982	1983 Q1	1983 Q2	1983 Q3
Manufacturing total	276.3	224.1	210.6	211.5	212.3
Durables total	205.1	159.9	146.9	147.2	146.8
Primary metals	31.6	26.5	23.7	23.9	24.4
Fabricated metal products	45.5	34.0	32.2	31.6	31.6
Nonelectrical machinery	50.7	38.8	32.2	32.0	31.8
Electrical equipment	26.5	23.8	23.2	23.3	23.2
Transportation equipment	31.8	20.6	20.2	20.9	20.7
Nondurables total	71.2	64.2	63.7	64.4	65.5
Nonmanufacturing total	643.5	623.4	607.0	620.9	620.7

competitiveness, but they are a big factor—one that would help to restore equilibrium to production costs if they were flexible and responded to market conditions. The experience so far in this economic cycle is not very encouraging. From the average level in 1982 to the third quarter of 1983, employment in manufacturing in the Cleveland SMSA fell by 5.3 percent. During the same time, average weekly earnings in manufacturing rose by 6.6 percent while the U.S. consumer price index rose 3.8 percent.

The longer-term record is somewhat brighter. From the peak in 1979, Cleveland employment in manufacturing fell by 23.2 percent while weekly earnings rose by 27.2 percent. However, the CPI rose by 38 percent over that period, thus reducing real average weekly earnings by 7.8 percent. If this trend continues long enough and fast enough, then growth in productivity through investment and improvements in management practices may eventually reindustrialize the Industrial Heartland.

The Mid-Atlantic

Rosemary Scanlon
The Port Authority of New York & New Jersey

Both New York and New Jersey showed strong signs of recovery from the 1981-1982 recession through the first nine months of 1983. The elements that have led the national recovery—construction, retail sales, and personal income—led the way in the region as well. Unemployment rates fell slightly and were considerably under national levels throughout the year, and the business services and finance industries continued to add jobs, as was the case throughout the recession.

Construction has performed exceptionally well. F.W. Dodge reports that over $11 billion in contracts were awarded in the two states in the first nine months of 1983, a 30 percent increase over the same period in 1982. This rate of increase exceeded the U.S. gain of 26 percent in the comparable period. The pace of activity was particularly strong in New Jersey, up almost 53 percent, led by a surge in both residential and office construction, and in New York City, where contracts increased by 38 percent, with awards for infrastructure and office building exceptionally strong.

Retail sales in both states increased by 9 percent in the first nine months, exceeding the national increase of 8.6 percent. Sales of durable goods were up almost 18 percent, parallel to the national trend.

While overall employment levels in the region have yet to move ahead of 1982 averages, unemployment rates have eased somewhat during the year. In New Jersey, the unemployment rate averaged 8 percent in the first ten months of 1983, but had fallen to 6.8 percent by October, compared to 8.9 percent average in 1982; in New York State, increases in unemployment during the spring months kept the 10-month average at 8.8 percent, although the rate had eased to 8.0 by October. In both states, the unemploy-

ment rate remained well under the national level throughout the recession and early recovery period.

The New York City-northern New Jersey Metropolitan Area economy has figured significantly in the economic recovery pattern of the two states. New York City has been particularly resilient, with a strong office building and leasing market, rising hotel-room occupancy rates, an 11 percent increase in air passengers, and sturdy retail activity.

By early 1984, both states should begin to see advances in employment levels, stronger gains in personal income, as well as continued decline in unemployment rates. Finance, business services, telecommunications and aviation, together with continued expansion in foreign investment, are all strong sectors in leading the Mid-Atlantic economy throughout 1984.

Economic Indicators—Percent Change from 1982 to Comparable Period of 1983

	New York (state)	*New Jersey*	*United States*
Construction awards (9 months)	18.6	52.7	26.0
Retail sales (9 months)	9.4	7.5	8.5
Wages & salaries (9 months)	−0.7	−0.1	−0.4
Unemployment rate (10 month average)	8.8	8.0	9.8

The Southeast

Donald L. Koch
Federal Reserve Bank of Atlanta

The Southeast is poised to enter a new stage of expansion as 1984 begins, maintaining the momentum developed since the region's economy began a strong upturn during the first half of 1983. The revival in residential construction, evident as 1982 drew to a close, stimulated construction-related industries as anticipated and the region's substantial furniture and carpet manufacturing industries began to expand output rapidly to meet the renewed demand. As encouraging signs of recovery nationwide began to awaken the long-awaited burst in consumer spending, sales of autos and textiles showed brisk growth. The recovery quickly spread to the Southeast's heavy concentrations of automobile parts and apparel manufacturers. Total employment began to grow again during the late Spring after remaining nearly flat through 1982.

After 1983 ends, the recovery appears to be gathering strength. Employment is showing relatively strong growth and the unemployment rate is declining, although Alabama, Louisiana and Mississippi—states hardest hit by the recession—are still experiencing rates in the vicinity of 12 percent. The average rate for the region has fallen from near 11 percent at the beginning of the year to near 9 percent during the fourth quarter. A second year of economic expansion nationally promises significant declines in the unemployment rate in the Southeast in 1984.

In Georgia and Florida, where economic activity is brisk, unemployment already has fallen to near 7.0 and 8.0 percent, respectively. The mix of service-related industries in the economies of these two states gave them a buffer against the high unemployment that characterized the manufacturing-dominated economies of neighboring

SOUTHEAST

states. The manufacturing economies of Alabama, Mississippi and Tennessee are also beginning to experience healthy employment gains in response to the progress of the national recovery. Louisiana's economy remains heavily dependent on the petroleum industry and international trade, both of which have been slow to recover.

The strongest rebounds in the Southeast in 1984 should occur in areas that produce goods for consumers and for national defense. Defense spending will boost activity at numerous defense installations in the region, but the areas producing sophisticated defense hardware, particularly in Florida, will benefit most. Strongly positive demographic pressures should boost spending on housing and consumer durables, and employment in the service industries, in Florida and Georgia, as these states benefit from an increased flow of in-migrants in 1984.

Other parts of the Southeast will benefit from emerging strength in business investment. Alabama, Louisiana, Mississippi and Tennessee will benefit from plant reopenings in diverse durable goods manufacturing industries and increased mining activities. Tennessee will also continue to benefit from Japanese investments in an automobile assembly plant and related manufacturing activities in

Smyrna, south of Nashville. If the national economy sustains its strong first-year advance in the second year of recovery, Alabama, Louisiana, Mississippi and Tennessee could show sharp gains in employment, extending a healthy growth pace to virtually all states in the region in 1984.

There are some important lingering trouble spots. The international trade and energy sectors are lagging other sectors of economic activity in recovery. A strong dollar and world recession reduced trade flows through most of 1983, including the flow of agricultural and energy products at major ports in the region. The speed of economic recovery in the United States and elsewhere in the world should help shape the strength of recovery of important coal, phosphate, pulp and paper, and chemical exports, as well as imports of oil and machinery into the United States. If the foreign-exchange value of the dollar drops in 1984 in response to the widening U.S. merchandise trade deficit, manufactured U.S. exports will grow slowly, but steadily, over the year, adding to the increased trade flow caused by world economic growth.

A severe drought across most of the region in 1983 left farmers with limited means of repaying the heavy indebtedness that had accumulated during the several years of adversity stretching back to 1977. The government's Payment-In-Kind (PIK) program assisted the farmers who chose to participate; it was the few who idled all of their acreage who were helped most as they were able to sell the cost-free commodities received from government storage at prices inflated by the supply-reducing effects of the drought and the PIK program. But the majority of producers were not covered and they watched their income prospects shrivel with the searing heat and dry weather. Livestock producers were also harmed by the sharp price increases in feed grains attributable to both PIK and the drought. The businesses that sell to farmers and purchase their products have sustained severe adverse impacts not only from the drought but also from the acreage retirement program that drastically cut business volume all across the farm belt.

For the survivors, conditions look brighter in 1984. Farmers are likely to resume full-scale plantings and merchants should realize a resurgence in demands for their products. Demand for farm products must also increase, though, if farmers are to escape another low-income disaster as bumper crops move to market. A large prospective citrus crop is already depressing orange prices from year-ago levels. Continued national economic recovery and favorable international trade developments should increase agricultural exports and provide helpful demand strength for farm products.

A continuation of national economic recovery in 1984 should boost other areas of economic activity in the region as well. The airline, tourism and convention businesses, important throughout the region, should grow sharply as the expansion proceeds. With the gain of convention facilities in Atlanta, the continued lure of Disney's new EPCOT center in Florida, and the run of the 1984 World's Fair in New Orleans, 1984 could be a banner year for southeastern hospitality industries. The World's Fair, in particular, should boost tourism in Louisiana as well as in neighboring states. The major cloud on the tourism horizon is the slowdown in the flow of tourists from Latin America in response to economic problems there.

Clearly, the economic outlook for the Southeast is positive. Plants should continue reopening and the job picture should continue to improve, assuming that consumer and business spending continues to fuel the national recovery. Virtually all economic sectors show promise for the new year despite continued high unemployment and other lingering woes from the recession in hard-hit Alabama, Louisiana, and Mississippi. Florida's economic growth appears likely to pace the region over the new year, but the benefits of revived growth should be widespread across the southeastern states.

"America's Breadbasket"

J. Dawson Ahalt
U.S. Department of Agriculture

One year ago, a bleak demand picture dominated the farm outlook. While global economic recovery from the 1980 recession appeared far off, mounting U.S. stocks of unsold commodities threatened to prolong entrenched low prices and income for U.S. farmers.

Events of the past year have substantially altered the situation. Despite prospects for continued weakness in foreign demand, striking adjustments in U.S. crop supplies have boosted 1983 prices and aggregate farm income, and they point to further increases in 1984.

Responding to the Payment-In-Kind program, farmers

reduced plantings of PIK crops and soybeans by 15 percent. Spring crop conditions were good, and winter wheat farmers realized record yields and large production. But Summer brought severe drought to the Southeast and Midwest, reducing yields sharply. With fewer acres planted

and yields reduced by drought, 1983 U.S. output of feed grains, oilseeds and cotton plummeted to between one-third and one-half, and crop prices advanced briskly. Wheat prices, although above a year earlier, remained unsatisfactorily low. For all of 1983, crop prices are likely to average 6 to 8% above 1982. Higher prices are offset by lower marketing volume, thus cash receipts are a little below the 1982 level.

Prices of livestock, unlike those of crops, weakened during the year. The drought disrupted production patterns and added to marketings. With lower prices, but larger meat, poultry and milk production, aggregate 1983 livestock receipts may be near the 1982 level.

While total 1983 farm cash receipts may be below the 1982 level, farm production expenses are down, too. Reduced plantings and little inflation in input costs caused expenses to go down for the first time in 30 years. These factors, coupled with large government payments in cash and kind—about $9 billion—generated record net cash farm income of $42 to $44 billion. (Net farm income, which includes inventory changes and noncash income, rose from $22 billion in 1982 to an estimated $24 to $26 billion in 1983.)

The impact of 1983 events on each farmer or rural area depended on a host of factors. Farmers who participated in the PIK program, took out crop insurance, or had high yields are likely to have fared better than others. In drought regions, crop and livestock producers, as well as local economies, were very hard pressed. For farm input manufacturers and dealers, reduced plantings and the drought meant smaller sales. On the output side, smaller crops cut down the volume of business for processing and exporting industries.

Perhaps the most significant result is just beginning to occur: Burdensome crop stocks will be worked down to much more manageable levels over the next year. These changes will not reduce world food and fiber supplies unduly, because foreign production rose to record levels in 1983. But global supplies will be more closely aligned with consumption, especially as economic recovery begins to stimulate farm product demand. During the first half of 1984, U.S. farmers' crop prices are expected to run above year-earlier levels. With stocks for most commodities declining, farm programs announced for 1984 provide less incentive to reduce production than last year. Thus, farmers are expected to bring back into production much of the cropland idled in 1983.

Assuming normal weather, crop production could rebound in 1984, increasing marketings in the second half of the year and adding somewhat to cash receipts. Increased spending for farm inputs and replacement of machinery favor recovery for farm input industries. Higher average livestock prices and receipts are likely. Price improvement is likely to come in the second half of the year. During the first half, livestock marketings will remain large as livestock and dairy producers cull their herds. Then, smaller marketings from trimmed herds and stronger consumer demand are expected to boost prices.

On balance, prospects suggest that while smaller government payments and higher production expenses could trim 1984 net cash income, net farm income could increase again, especially with a large positive change in farmers' inventories. This positive income forecast, coupled with slower growth in farm debt in 1983 and 1984, may help ease some of the financial problems that highly leveraged farmers have been facing. Meanwhile, farmers and other rural Americans should benefit from an expanding job market and a continuing moderate level of inflation.

One aspect of the farm outlook is likely to remain problematical for at least another year. After dropping by a tenth in the past year, the value of U.S. farm exports is forecast to recover in the year ahead because of high prices for farm commodities. However, the export volume is expected to decline—for the fourth consecutive year. Our exports face daunting problems. Foreign economic recovery seriously lags our own. Many importing nations are hobbled by huge debt problems. Record foreign harvests in 1983 have reduced trade needs, and the strong U.S. dollar makes our exports less competitive.

Supply adjustments made during 1983 should help U.S. agriculture to weather this period. However, the cost of adjustment for both farmers and taxpayers has been high, and to a large degree has been borne unilaterally by the United States. This situation is stirring growing debate over appropriate policies for domestic agriculture and international trade in the long run.

The Southwest

Bernard L. Weinstein
John Gray Institute, Lamar University

As 1983 draws to a close, the southwestern region appears to be out of step with the national economy. Over the past year, with the end of the recession, the national unemployment rate has dropped from 10.2 percent to 9.3 percent. In contrast, each of the four southwestern states has recorded an increase.

The Southwest, which had been booming for nearly a decade prior to the recession, is still reeling from lower

Unemployment Rates

	September 1982	*September 1983*
Texas	8.0%	8.5%
Oklahoma	6.5	7.5
Arkansas	8.9	9.1
Louisiana	11.2	11.6
United States	10.2	9.3

energy prices, Mexican peso devaluations, and farm problems. Although onshore exploration and drilling have picked up somewhat in recent months, huge inventories of rigs, pipe and other oilfield equipment remain unused. Offshore drilling is still in the doldrums, and dozens of jackup rigs sit moored in coastal estuaries. Throughput at refineries and petrochemical plants along the Gulf Coast is well below capacity, and continued downsizing and automation have resulted in thousands of permanent layoffs. As a consequence of oil patch woes, every Gulf Coast metropolitan area from Brownsville to New Orleans, with the exception of Lafayette, is currently posting double-digit unemployment rates. Barring an unforeseen new spike in oil and gas prices, the Gulf Coast crescent will be slow to recover from its present malaise.

The vicissitudes of the Mexican economy continue to wreak havoc along the southwestern border. In fact, Laredo at 26.4 percent and McAllen at 25.1 percent have the unenviable distinction of recording the highest unemployment rates in the nation. Here again, little improvement can be expected unless the Mexican economy recovers and the problem of illegal aliens is resolved.

The agricultural outlook for the high plains of Texas and Oklahoma also remains cloudy. By 1982, real farm income had dropped to 60 percent of its 1979 level. Positive developments during 1983 included lower energy costs, declining interest rates, and the federal Payment-in-Kind (PIK) program. On the negative side, however, drought and flooding severely reduced crop yields in both the high plains and the coastal farming areas. Lack of rainfall and forage also forced the early slaughter of West Texas cattle herds.

The region's bright spot is clearly the I-35 corridor stretching from Oklahoma City to San Antonio. Often referred to as "Silicon Gulch," this strip encompasses some of the fastest-growing and healthiest metropolitan areas in the nation. For example, at 5.6 percent, Dallas-Fort Worth can boast the lowest unemployment rate of any major metropolitan area in the nation. Bryan-College Station and Austin have consistently recorded the lowest unemployment rates among all metropolitan areas nationwide. The I-35 corridor should do extremely well during 1984 as high-tech manufacturing expands and defense procurement rises. Twenty-five percent of the nation's housing starts in 1984 are expected to be in the state of Texas, with 15 percent in the Dallas-Fort Worth area alone.

The Mountains

Lucy Black Creighton
First Interstate Bank of Denver

Responses of the Mountain states to the national recovery are a mixed bag. In some, the same lower inflation and interest rates that spurred housing, auto and other consumer expenditures at the national level have also led to increased economic activity at the state level. These states should continue to exceed the national average in employment and income growth in 1984. In other states, where population is small and resource development is an important part of the economy, lower oil prices and a slow recovery in copper, coal and uranium, as well as in agriculture, will depress economic activity for another year.

Colorado and Arizona began showing increases in employment early in 1983 and, by September, employment had topped prerecession highs. Unemployment rates have fallen significantly, with Arizona down from 11 percent

in September, 1982, to 7.9 percent in September, 1983; and Colorado down from 7.9 to 5.9 percent. Loss of jobs in mining— especially copper for Arizona and oil and gas for Colorado—has been compensated for by growing employment in construction, manufacturing, trade and the ser-

The Mountain States: A Mixed Bag

	Nonagricultural wage and salary employment—percent change September, 1982 to September, 1983	*Housing permits—percent change, first 9 months, 1982, to first 9 months, 1983*
Nevada	3.3%	46%
Arizona	3.0	99
Colorado	2.9	67
New Mexico	2.0	48
Idaho	1.9	99
Utah	1.4	79
Wyoming	−1.1	5
Montana	−1.4	96
United States	1.7	71

vices. Through the first nine months of 1983, housing permits totaled 47,400 in Arizona and 37,000 in Colorado, increases of 99 and 67 percent, respectively, over the same period in 1982.

For both Arizona and Colorado, manufacturing employment, especially in electronics and other high-tech industries, is an important growth element which should gain in strength as the national recovery proceeds. Furthermore, the same increases in consumer confidence that have pushed household spending at the national level will energize household spending and trade and service employment at the state level. In 1984, employment growth in these states should average 4 to 5 percent. Although Denver's office-space market is still very soft, the Denver and Phoenix areas will both show considerable gains in total nonresidential construction.

Nevada has been a star performer. With tourism an important part of overall economic activity, rising consumer confidence means increased spending and employment. And Idaho, with its dependence on national demand for food, lumber and wood products, also has responded rather directly to the national upturn in retail sales and in housing. In Idaho, employment has been rising since early in 1983 and unemployment has fallen below 6 percent. Such gains should be sustained through 1984. For both Nevada and Idaho, hefty increases in housing have led to sizable growth of construction employment and increases in retail sales.

In spite of continuing losses of employment in petroleum and other mining activities in New Mexico, construction and tourism are helping the state achieve what appear to be the early stages of economic recovery. Through mid-1983, statewide housing permits showed the highest six-month level since 1979, and trade and the services are responding to increased levels of spending by out-of-state tourists. Although manufacturing is only a small part of the New Mexico economy, there are signs that the situation is changing, and in 1982 a small sector of technology-based manufacturing firms bucked the recession to show an increase of 800 jobs. Federal military and space operations are also an increasingly important source of economic growth for the state. The outlook for 1984 is for employment growth of 3 to 4 percent.

Neither Montana nor Wyoming has experienced much of the national recovery. Hurt by layoffs in coal and copper and by the downturn in oil and gas activity, nonagricultural employment in September was below year-earlier levels in both states. Although the national housing recovery has added several thousand jobs in the state's lumber industry, Montana's mining industry has been in increasingly difficult straits. Since 1980, Anaconda had been steadily reducing employment at its large copper mine and smelter in Butte; and, in June 1983, it suspended all remaining operations. With agriculture only marginally stronger, the state's economy will make only modest gains in 1983 and 1984.

Nearly 16 percent of Wyoming's total employment is in mining, including petroleum and gas, and the state has been hard hit by the downturn in oil, coal and uranium. Wyoming's unemployment rate, once the lowest in the nation, rose from a 1982 average of 4.4 percent to a high of 10.9 percent in March, 1983. With energy and mining expected to show little change over the next six to twelve months, the state's economic situation is likely to see only small improvement in 1984.

In Utah, the lagged effect of layoffs in coal, copper and the oil and gas industry restrained employment growth in early 1983. But in the second half of the year, substantial employment gains were achieved in construction, primary metals, and building materials. As a result, the employment rate fell to 5.9 percent in September, 1983, from 7.4 percent the previous September. Employment growth should move to 3 to 3.5 percent in 1984.

The Pacific

Larry J. Kimbell
UCLA

The rate of personal income growth from the second quarter of 1982 to the same quarter of 1983 was close to the national gain in Oregon and Washington, slightly ahead in Hawaii and California, and significantly faster in Alaska. (See table.)

Alaska continues to show dramatic employment gains—far greater than the other states in the Pacific region. Nonagricultural employment grew 9.7 percent from August, 1982, to the same month in 1983. The national gain was only 0.6 percent for this period. Nonfarm employment grew at a rate close to the national gain in California and Washington, and significantly more slowly in Hawaii and Oregon.

The national unemployment rate was 8.8 percent in September, 1983 (not seasonally adjusted), higher than in any Pacific region state except Washington. The unemployment rate in Hawaii was exceptionally low at 6.2 percent.

The national recovery in homebuilding has stimulated sharp gains in lumber employment, as we predicted last year. Lumber and wood producers added 12.6 and 13.6 percent to payrolls in California and Oregon between August, 1982, and the same month in 1983. Washington lumbering industry posted a gain of 6.5 percent in employment over this period, significantly slower than the national gain in that industry of 16.4 percent.

One major industry in Washington and California did not recover through September, 1983, namely, aircraft and parts. California employment in this key industry was 136,600 persons, 1.3 percent fewer than a year earlier. The drop in Washington was a far more severe 15.4 percent. The most recent employment peak for the industry in Washington occurred in January, 1981, at 81,500 jobs. By September, 1983, employment had dropped to 61,700. These developments are somewhat surprising, given the major increases in defense procurement. The drop in commercial aircraft production has more than offset any boom in defense contracting. Airlines are still struggling with deregulation and the price cutting that destroyed profitability for most major trunk carriers. Therefore, this industry is not expected to turn around significantly until 1985, when the overhang of used jumbo jetliners will be worked down to more manageable proportions.

Alaska continues to be a world apart from the other states in the region. From August, 1982, to the same month in 1983, employment grew 33.2 percent in construction, 16.3 percent in trade, and 13 percent in services. Mining employment, which includes petroleum extraction, fell 11.2 percent during this period, a hint that the boom in Alaska may not continue at such exceptional rates of growth.

California will grow slightly faster than the nation as a whole in 1984. Nonagricultural employment will increase 4.3 percent in California in 1984, 0.4 faster than in the

Recent Evidence on the Pacific Region

	United States	*Alaska*	*California*	*Hawaii*	*Oregon*	*Washington*
Personal income- percent change, Q-2, 1982 to Q-3, 1983	5.9	8.3	6.8	6.4	5.7	5.8
Unemployment rate (%) September, 1983	8.8	7.6	8.3	6.2	8.6	9.5
Employment change (%) August, 1982 to August, 1983						
Total nonfarm	0.6	9.7	0.5	-0.8	-1.0	0.7
Durables manufacturing	0.6	n.a.	-0.9	-8.1	1.6	-7.0
Lumber and wood	16.4	n.a.	12.6	n.a.	13.6	6.5

country as a whole. Personal income will rise 11.2 percent in California, almost 2 percent faster than predicted for the United States generally. A shakeout in the home computer industry has been under way in 1983, but this phase should be over by late 1984. Once commercial aircraft orders stabilize, employment in the aircraft and parts industry will rise, boosted by higher defense procurement as well.

In Washington, durable goods manufacturing will resume growth in 1984, after a severe decline in 1983. The relatively high rate of unemployment in Washington will, therefore, be brought in line with the 8.2 percent rate expected for the nation in 1984.

Next year will be another good year for homebuilders. Lumbering activity in Oregon will rise in 1984, although by not nearly as much as the 13.6 percent gain recorded during 1983. However, beyond 1984 prospects are not so sanguine. Large federal deficits, the need to discipline money growth, and rising private credit demands could threaten another credit crunch by 1985.

If airlines ever stabilize their prices at higher levels, one casualty could be tourism in Hawaii—a clear winner from the intense competition. This does not look likely in 1984. Rising real incomes will boost this highly income-elastic sector and help turn around Hawaiian employment. Personal income will grow 9.3 percent in 1984 in Hawaii.